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No. 94-1249

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In The

Supreme Court of the United States

October Term, 1994

DRUG EMPORIUM, INC.,

Petitioner,

v.

PARFUMS GIVENCHY, INC.,

Respondent.

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF OF AFTA, MARSHALL'S AND AMOA, AS *AMICI CURIAE* IN SUPPORT OF THE PETITION FOR WRIT OF *CERTIORARI*

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INTEREST OF THE AMICI CURIAE

The amici on this brief are as follows:

The American Free Trade Association ("AFTA") is an incorporated trade association of independent American importers, distributors and wholesalers of parallel import fragrances. Many of the Association's members are small businesses that are located throughout the United States and employ hundreds of American citizens.

Marshall's Inc., is a national retailer with over 450 stores throughout the United States. Marshall's employs approximately 24,000 associates nationwide.

The Amusement and Music Operators Association ("AMOA") is a trade association representing over 1,500 small businesses located throughout the United States which commercially place jukeboxes, video games, and other coin-operated music and amusement devices.

Parallel imports, sometimes also referred to as "gray market" goods, are genuine trademarked consumer products, such as fragrances, 35mm cameras, electronic products, and watches, which are typically manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world.

The amici have a vital stake in the outcome of this case, and filed previous *amici* briefs on similar issues.[1]

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[1] *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986); *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 486 U.S. 1042 (1988); *Bell and Howell: Mimiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983) *cert. denied*, 479 U.S. 950 (1987); *Johnson & Johnson Products, Inc. v. DAL International Trading Co.*, 798 F.2d 100 (3d Cir. 1986); *Sebastian Intern. Inc. v. Consumer Contracts (PTY), Ltd.*, 847 F.2d 1093 (3d Cir. 1988); *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 334 (S.D. Fla. 1985).

The instant challenge under the Copyright Act is just one prong of a full-scale attack by some manufacturers who are attempting to eliminate the legitimate and beneficial competition presented by the parallel importation and re-importation of their own products. This is a strategy that has been unsuccessful in court through the use of the trademark and patent laws.

SUMMARY OF THE ARGUMENT

The Ninth Circuit and the Third Circuit are in direct conflict in their interpretation of the relationship between the first sale doctrine found in 17 U.S.C. § 109 and the import restriction found in 17 U.S.C. § 602. According to the Ninth Circuit, absent permission of the U.S. copyright holder, the importation and subsequent distribution of foreign bought products bearing a U.S. copyright constitutes infringement, even when the copyright owner itself has already sold the same goods and earned a return on that sale. That court concluded that a foreign sale is not a "valid" first sale because it was not "lawfully made under this title." Such an expansive interpretation effectively abolishes the first sale doctrine for foreign bought products bearing U.S. copyrights and is inconsistent with analogous decisions under U.S. patent and trademark laws.

By contrast, the Third Circuit held that the first sale by a copyright holder extinguishes the copyright regardless of the place of sale. This is the better rule, since it preserves the traditional balance between the copyright

holder's right to earn a just return and the policy against unduly restricting free alienation of property.

The Ninth Circuit's reading of a location of sale requirement into the copyright laws is simply unwarranted and unsupported by the statutory text or legislative history. The first sale doctrine, although codified, "finds its roots in the common law aversion to limiting the alienation of personal property." *Sebastian, infra.* Although the copyright law has undergone enormous changes since its original enactment, at no point has Congress chosen to modify the language of the statute to incorporate a territorial restriction. The Ninth Circuit's interpretation of the statute's relation to the import restriction is therefore not consistent with Congressional intent and expands the import restriction beyond its proper scope.

Finally, this decision significantly impacts the *amici curiae,* the American consumer and the American economy. By adopting an interpretation at odds with other Circuits, the Ninth Circuit renders amici open to contradictory and inconsistent legal liability and undermines their ability to market and distribute nationally. The *amici curiae* strongly urge the Court to accept *certiorari* on this important national issue.

ARGUMENT

I. The Ninth Circuit Is In Direct Conflict With The Third Circuit.

The Ninth Circuit's decision in the instant case is in direct conflict with the Third Circuit's decision in *Sebastian Intern. v. Consumer Contacts*, 847 F.2d 1093 (3d Cir. 1988). The conflict arises from the differing interpretation of the relationship between 17 U.S.C. § 602(a) ("the import restriction") and 17 U.S.C. § 109(a) ("the first sale doctrine"). The decision below is concerned with the locus of the first sale of the product. ("There was no first sale because the defendant purchased the copyrighted material *abroad.*" (emphasis in original)) The Ninth Circuit found the first sale doctrine does not limit the copyright holder's distribution rights and right to restrict importation when the first sale is a foreign sale.

The Third Circuit in *Sebastian* **expressly** contradicts this proposition in holding that "the **place of sale is not the critical factor** in determining whether section 602(a) governs." *Sebastian*, 847 F.2d at 1099. (emphasis added) Furthermore, it expressly contradicts the holding that an infringement was committed upon importation of the foreign purchased product when it stated that "a first sale by the copyright holder extinguishes any right later to control importations of those copies." *Id.*

Our patent and trademark laws have followed a reasoning similar to that in *Sebastian*. The patent monopoly is deemed waived with respect to a particular patented item once it is sold, whether it is sold domestically or abroad. *See Seiko v. Refac Technology*, 9 U.S.P.Q. 2d 1046 (S.D.N.Y. 1988). Similarly, this Court has recognized that

trademarked goods purchased abroad or domestically from the trademark holder or a related company may be freely imported into this country and resold consistent with the Tariff Act. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988).

Despite the Ninth Circuit's attempt to distinguish *Sebastian* on the basis of locus of manufacture, the distinction is artificial. In the instant case the products bearing the copyrights in question were manufactured abroad by the parent company of the U.S. copyright holder. In *Sebastian* the products bearing the copyrights were manufactured in the United States and shipped abroad. In both cases the first sale took place abroad. Although the Ninth Circuit quotes the language of earlier decisions which state that the first sale protection only applies to products made and sold in the U.S., its own articulation of the rule is based on place of sale. Nowhere does the Court state that the *locus* of manufacture is a relevant concern. The critical factor was instead the *locus* of sale - the very point on which the Third Court has reached an opposite holding. Accordingly, there is a clear conflict which this Court should address.

II. The Unusual Economic, Policy and Legal Significance of the Instant Decision Justifies *Certiorari* Review

While the import restriction in Section 602 was certainly designed to provide at least some greater protection for the copyright holder, nothing on the face of the statute suggests that it is intended to allow a copyright holder to restrain trade, after he has received a "reward"

for his copyright. When a copyright holder directly or through a related company sells a work overseas, he is receiving his fair "reward." The mere importation of a work by the purchaser does not mean that the copyright holder did not receive a "reward" for his copyright. *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 344 (S.D. Fla. 1985); *Red Baron Franklin Park v. Taito Corp.*, 9 U.S.P.Q. 2d 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 175 (4th Cir. 1989), *cert. den.*, 493 U.S. 1058 (1990), *Sebastian International*, 847 F.2d 1093 at 1099. This is the business of the parallel market.

The parallel market has existed and grown in the United States for a great many years. It is both a significant entity in its own right, as well as an important source of affordable quality merchandise for U.S. consumers. Over the course of the last 50 years a very careful balance has been created to protect the legitimate interest of the holders of intellectual property rights to receive compensation for their efforts, while at the same time not allowing them to escape competition, in effect from themselves, when they choose to price discriminate in various markets. The Ninth Circuit decision not only upsets this delicate balance, but it also threatens the immediate nationwide disruption, and possible destruction, of the parallel market.

A. Economic Considerations

The parallel market represents a significant portion of the U.S. economy, involving practically the entire range of consumer products. In terms of only the single facet of the market – fragrances – which is the subject of

the instant litigation, the lobbying organization of which Parfums Givenchy is both a member and the current head estimates that 25% of the market consists of parallel merchandise. *Unable to Protect Product Trademarks, Manufacturers Copyright the Boxes*, New York Times, November 24, 1994. Fragrances, however, are only a portion of a growing industry which includes cosmetics, household goods and home electronics. In short, we doubt that respondent will dispute the economic significance of the industry at issue.

We likewise doubt that respondent would dispute the potential immediate nationwide impact of the Ninth Circuit decision. Within less than a month of the instant decision, respondent in this matter filed suit against K Mart Corporation, Sears, Roebuck & Co., Wal-Mart Stores, Inc., Marshall's Inc., Loehmann's Inc., and six other defendants. *Parfums Givenchy, Inc. v. Kmart, et al.*, Case No. 94-7647, United States District Court for the Central District of California. This litigation, which was filed against essentialiy all of the major discount retailers in the United States, seeks a permanent nationwide injunction preventing the distribution and sale of the brand perfume at issue here. *See also, Estee Lauder v. Wal-Mart*, Case No. CV 94-3277 (C.D.Cal. 1994) (Seeking an injunction under the same copyright theory.) In addition, the November 24, 1994 New York Times article references a copyright suit in Los Angeles involving porcelain figurines manufactured in Spain by Lladro Inc., and another similar suit brought by the U.S. subsidiary of an Austrian crystal company. That same article notes that "several cosmetic companies are considering similar actions (and) the Lancaster Group U.S.A., for example, has copyrighted

the bottles and boxes of its fragrances." New York Times, November 24, 1994.

In short, the Ninth Circuit decision can effect not just a nationwide restriction on the parallel market for fragrances, but for the entire range of consumer products. A decision which has the potential to destroy an entire industry of this economic significance deserves the most thorough review.

B. Policy Considerations

As the Ninth Circuit recognized, because of its implication to the entire parallel market, "serious policy considerations weigh on both sides of this debate." 38 F.3d at 481 n. 6. The package of bottled perfume at issue and its contents could have been protected with a patent or a trademark. In each instance, however, Congress and the courts have rejected the application of these doctrines to the exclusion of legitimate parallel market merchandise. *See K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Kabushiki Kaisha Hattori Seiko v. Refac Technology Development Corp.*, 690 F.Supp. 1339 (S.D.N.Y. 1988). As a matter of economic reality, what respondent sold was a bottle of perfume. The customer was attracted to purchase the bottle of perfume, not the minor design element on the box. It strains credibility to believe that Congress, after carefully allowing for parallel market goods in all other forms of intellectual property rights, would provide for the destruction of the parallel market by a ruse as transparent as the one at issue.

As the Third Circuit observed:

> This twist has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that **the controversy over "gray market"goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly**.

Sebastian, 847 F.2d at 1099. (emphasis added)

This comment is especially telling given the Congressional reaction to the decision in *Red Baron*. 9 U.S.P.Q. 2d 1901(E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989) *cert. den.*, 493 U.S. 1058. That case dealt with the *purchase overseas, of a foreign made*, copyrighted article, initially sold by the foreign copyright holder which was *related* to the U.S. copyright holder. The District Court refused to grant an injunction, finding that the "first-sale" by the related copyright holder overrode the import restriction in Section 602. *Id.* The Circuit Court overturned this decision, not based upon the import restriction, but rather that the public use of the copyrighted material violated the "performance right." *Id.* 883 F.2d at 281.

In 1990 Congress specifically amended the statute to overturn the *Red Baron* Circuit Court decision. See P.L. 101-650 § 103 and discussion in 1990 U.S. CODE CONG. & ADMIN. NEWS 6935, 6947. Although Congress created certain exceptions to the "first-sale" doctrine, it did not choose to modify the interpretation employed by the *Red Baron* District Court. This creates a presumption that Congress accepted the conclusions of the District Court,

which should now enjoy the force and effect of law. *Merrill Lynch, Pierce, Fenner & Smith v. Corran*, 456 U.S. 353, (1982); *Wehrly v. United States*, 808 F.2d 1311 (9th Cir. 1986).

In short, despite the decision in *Sebastian*, and the holding by the district court in *Red Baron*, Congressional action in 1990 reflects no decision on the part of the Congress to restrict the parallel market under the material facts of the instant case. Quite the contrary, these actions strongly indicate Congressional support of the continued existence of the parallel market and the applicability of the first sale doctrine to foreign sales.

CONCLUSION

For the foregoing reasons, this Court should grant the petition and issue a writ of *certiorari* to the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

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